International Business Environments and Operations, 13/e

Part Three
Theories and Institutions: Trade and Investment

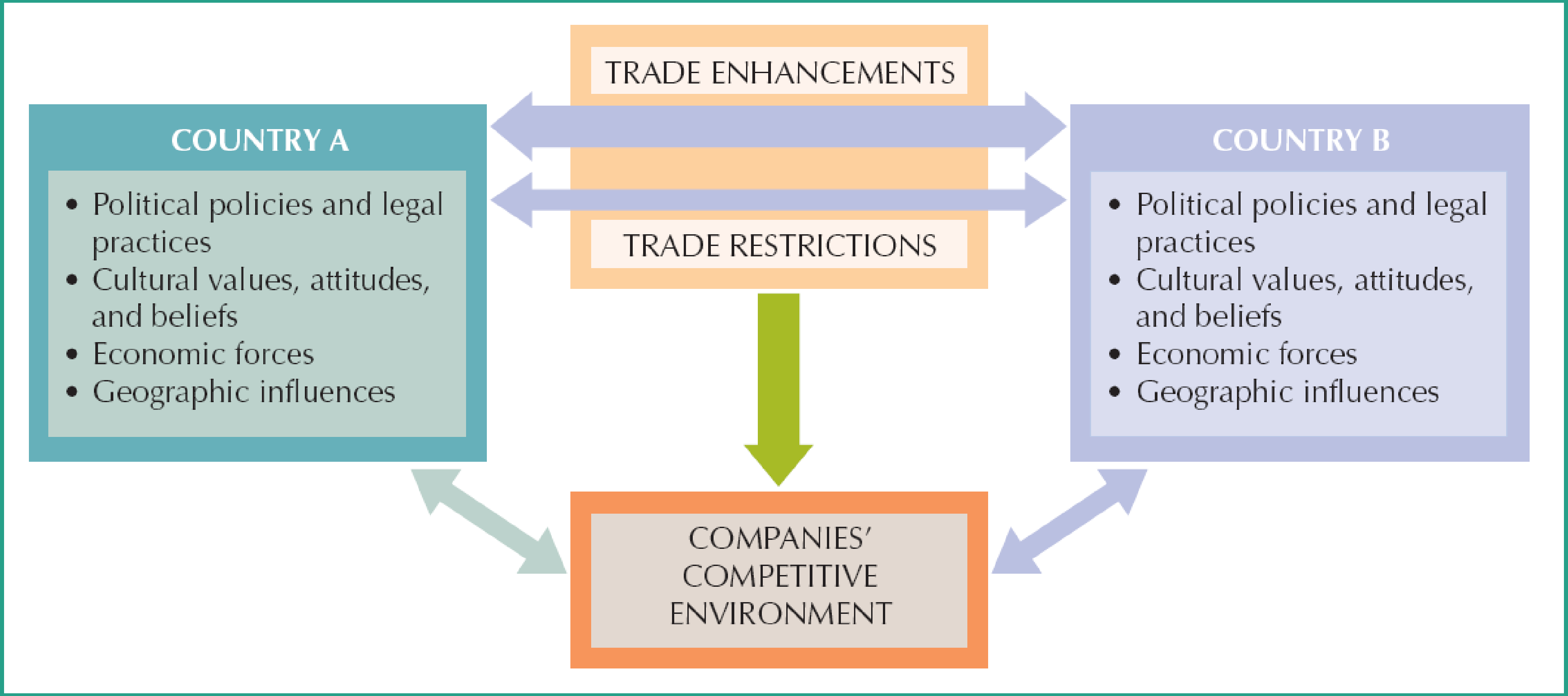
Chapter Seven

Governmental Influence On Trade

Chapter Objectives

- To explain the rationales for governmental policies that enhance and restrict trade
- To show the effects of pressure groups on trade policies
- To describe the potential and actual effects of governmental intervention on the free flow of trade
- To illustrate the major means by which trade is restricted and regulated
- To demonstrate the business uncertainties and business opportunities created by governmental trade policies

Physical and Social Factors Affecting the Flow of Goods and Services



The Role of Stakeholders

All countries seek to influence trade, and each has economic, social, and political objectives:

- Conflicting objectives
- Interest groups

Why Governments Intervene in Trade

Economic Rationales	Noneconomic Rationales
Preventing unemployment	Maintaining essential industries
Protecting infant industries	Dealing with unfriendly countries
Promoting industrialization	Maintaining or extending spheres of influence
Improving comparative position	Preserving national identity

Import Restrictions to Create Domestic Employment

- May lead to retaliation by other countries
- Are less likely retaliated against effectively by small economies
- Are less likely to be met with retaliation if implemented by small economies
- May decrease export jobs because of price increases for components
- May decrease export jobs because of lower incomes abroad

Protecting "Infant-Industries"

The infant-industry argument for protection holds

that governmental prevention of import competition

is necessary to help certain industries move from

high-cost to low-cost production

Developing an Industrial Base

- Countries seek protection to promote industrialization because that type of production:
  - Brings faster growth than agriculture
  - Brings in investment funds
  - Diversifies the economy
  - Brings more income than primary products do
  - Reduces imports and promotes exports
  - Helps the nation-building process

Assumptions in Developing an Industrial Base

- Surplus Workers
- Investment Inflows
- Diversification
- Growth in Manufactured Goods
- Import Substitution and Export-Led Development
- Nation Building

Economic Relationships with Other Countries

- Trade controls are used to improve economic relations with other countries
- Their objectives include improving the balance of:
  - payments
  - raising prices to foreign consumers
  - gaining fair access to foreign markets
  - preventing foreign monopoly prices
  - assuring that domestic consumers get low prices
  - lowering profit margins for foreign producers

Maintaining Essential Industries

- In protecting essential industries, countries must:
  - Determine which ones are essential
  - Consider costs and alternatives
  - Consider political consequences

Preventing Shipments to "Unfriendly" Countries

- Considerable governmental interference in international trade is motivated by:
  - political rather than economic concerns
  - maintaining domestic supplies of essential goods
  - preventing potential enemies from gaining goods that would help them achieve their objectives

Maintaining or Extending Spheres of Influence

- Governments give aid and credits to, and encourage imports from, countries that join a political alliance or vote a preferred way within international bodies.
- A country's trade restrictions may coerce governments to follow certain political actions or punish companies whose governments do not.

Preserving National Identity

To sustain this collective identity that sets their
citizens apart from those in other nations,
countries limit foreign products and services in
certain sectors.

Instruments of Trade Control

- Trade controls that directly affect price and indirectly affect quantity include:
  - tariffs
  - subsidies
  - customs-valuation methods
  - special fees

Nontariff Barriers: Direct Price Influences

- Subsidies
- Aid and Loans
- Customs Valuation
- Other Direct Price Influences

Nontariff Barriers: Quantity Controls

- Trade controls that directly affect quantity and indirectly affect price include:
  - quotas
  - voluntary export restraint (VERs)
  - “buy local” legislation
  - standards and labels
  - specific permission requirements
  - administrative delays
  - reciprocal requirements
  - restrictions on services

Dealing With Governmental Trade Influences

- When facing import competition, companies can:
  - Move abroad
  - Seek other market niches
  - Make domestic output competitive
  - Try to get protection

Tactics for Dealing with Import Competition

- Convincing Decision Makers
- Involving the Industry and Stakeholders
- Preparing for Changes in the Competitive Environment

Future: Dynamics and Complexity

- Trade restriction changes bring about winners and losers among countries, companies, and workers
- The international regulatory situation is becoming more complex
- Production shifts create uncertainties and dynamics for companies' operations